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TAGS: ECON EFIN VE

SUBJECT: GBRV NOT TO NATIONALIZE BANCO DE VENEZUELA

REF: A. 2008 CARACAS 1061

1B. 2008 CARACAS 1135

1C. 2008 CARACAS 1690

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b) and (d).

11. (C) Milton Guzman (strictly protect throughout), chief economist and vice president of Banco de Venezuela (BdV), told Econoffs February 18 BdV would not be nationalized despite President Chavez's sensational prior announcement to that effect. (Note: President Chavez surprised Venezuela's banking community by announcing his intention to nationalize BdV, which is owned by the Spanish Grupo Santander, on July 31, 2008 (ref A). While negotiations initially appeared headed for a rapid conclusion (ref B), they subsequently lost steam, partly due to the fall in oil prices in the fall of 12008. End note.) Guzman said Santander's CEO told a visiting group of BdV executives in Madrid in early February that Government of the Bolivarian Republic of Venezuela (GBRV) officials had orally told Santander in response to a January letter that the GBRV was no longer seeking to purchase BdV. While Santander considered this response "official," Guzman continued, neither side was likely to publicly state the negotiations were over. The GBRV would not want to lose face, and Santander did not want to embarrass the GBRV. Guzman offered two related reasons for the GBRV decision: a sharp fall in GBRV revenue and available funds due to the fall in oil prices and a sense on the GBRV's part that the opportunity cost of taking over BdV (in terms of resources and management capacity) was simply too high.

12. (C) This "non-nationalization" episode comes at a cost to BdV and Venezuela's economy. Guzman estimated BdV's value has declined from USD 1.3 billion to 800 million since the time of the announcement, though part of the decline is attributable to general economic conditions. While BdV did not lose market share, it did lose some private clients, with public sector clients compensating for those losses. Guzman acknowledged BdV will have its work cut out for it this year to reclaim its image, both with clients and with employees concerned about potential GBRV takeover. More broadly, of course, Chavez's announcement, even if the nationalization was never carried out, worsened an already difficult environment for investment.

13. (SBU) Comment: This episode, assuming it is over as described above, shows the evolving interplay between political, economic, and bureaucratic factors in GBRV decision-making. Chavez's initial announcement probably

reflected his sense the announcement itself could help him politically, his push for greater state control over strategic industries, and a desire to use BdV's network to support patronage efforts. He made the announcement in the month oil prices reached their peak. With oil prices falling and the GBRV negotiating team pulled in different directions, negotiations stalled. The GBRV's decision to back out of the nationalization reflects the reality of low oil prices, with the lack of public confirmation allowing Chavez not to lose face. The fact that this episode has hurt BdV and the Venezuelan economy and will discourage further investment in the banking sector seems not to concern the GBRV. End

summary.
CAULFIELD